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Bond Raters Advise on Fix to California Law that Doomed PG&E.

- **Legislators say they will seek input from credit-rating firms**
- **Utilities face junk ratings amid mounting risk from fires**

It's no secret that lobbyists help craft laws. But what about credit-rating companies?

As California lawmakers work on a plan to stabilize the state's biggest electric companies, which are facing increasing pressure from wildfire liabilities, they say they'll seek input from ratings analysts to help ensure the utilities can retain access to capital markets. In a statement Tuesday, S&P Global Ratings said "there was a relatively short window" for legislators to show "concrete steps" before it downgrades the companies again.

Senate Majority Leader Bob Hertzberg said in an interview that any legislative proposals would be "informed by Moody's, Standard & Poor's and Fitch." He wants to talk to the companies personally, the Democrat said.

"Once we come up with various structures, they're going to be very instrumental in determining whether or not they'll give credit so we can have borrowing by both investor owned and municipal-owned utilities," said Hertzberg, who was Assembly Speaker during the state's energy crisis almost two decades ago.

Fatal wildfires, which have intensified in severity because of climate change, have ravaged California in the past two years and helped push its biggest utility, PG&E Corp., into bankruptcy in January. The company's power lines are suspected of sparking last year's Camp Fire, the deadliest in state history, which killed 86 people and destroyed the Butte County town of Paradise. Utilities can be held liable for blazes sparked by their equipment, even if they followed safety rules, and credit-rating companies have cited that unique state rule in their downgrades of PG&E and its peers.

Junk Ratings

S&P last month cut Edison International's Southern California Edison Co. and Sempra Energy's San Diego Gas & Electric Co. closer to junk status and said it could lower the ratings more. Moody's Investors Service said it may downgrade them as well, and Fitch Ratings changed their outlooks to negative, indicating it could do so.

Downgrades to junk could limit the companies' access to capital, an outcome Edison Chief Executive Officer Pedro Pizarro warned would happen without any legislative action.

Shares of PG&E climbed Tuesday after Citigroup Inc. upgraded the stock on the prospect that legislation may be passed within three months to limit risk from future blazes. Governor Gavin Newsom in a speech last week said he gave his team working on the issue 60 days to map out a plan.

Legislators have said they are urgently reviewing options. But addressing the doctrine known as inverse condemnation, in which utilities are on the hook for damages, is “off the table,” Hertzberg said.

State Senator Bill Dodd, who guided legislation last year that helped utilities finance some of their wildfire liabilities, said in an interview that legislators are looking at other avenues beyond inverse condemnation that would satisfy the raters.

“We have to negotiate, and we have to understand what there is beyond that and what the cost to the ratepayers really is before making that decision,” the Democrat said.

Moody’s declined to comment. S&P said it doesn’t discuss interactions with market participants including elected officials. Fitch didn’t respond to requests for comment.

In its statement, S&P said “there is a window of opportunity to bring clarity to the regulatory construct that will start to close at the beginning of the 2019 wildfire season” this summer.

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